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PSC RESPONDS TO FEDERAL DECISION ON KENTUCKY POWER CO. ENTRY INTO REGIONAL TRANSMISSION ORGANIZATION

FRANKFORT, Ky. (June 23, 2004) - The Federal Energy Regulatory Commission (FERC) has approved, without modification, an earlier settlement agreement by the Kentucky Public Service Commission (PSC) allowing the Kentucky Power Company to transfer control of its major transmission lines to PJM Interconnection LLC (PJM), a regional transmission organization (RTO).

"This settlement satisfies the interests of the parties while protecting Kentucky ratepayers," PSC Executive Director Beth O'Donnell said. "We are gratified that the FERC accepted the settlement in its entirety.

"Furthermore, we applaud the FERC for its statements affirming the PSC's regulatory authority and acknowledging that when a transmission emergency necessitates load curtailment, it is the local utility, not the RTO, that determines which customers are curtailed," O'Donnell said. "We are pleased that this difficult and complex matter has been resolved."

Kentucky Power, a subsidiary of American Electric Power Company (AEP), serves about 175,000 customers in eastern Kentucky.

PJM controls transmission facilities and operates a wholesale electric market in six states and the District of Columbia.

The PSC conditionally approved Kentucky Power's transfer of control of its major transmission lines to PJM on May 19, 2004, after Kentucky Power presented an analysis of the costs and benefits of membership in the Pennsylvania-based RTO. The parties to the case also filed a stipulation that clarified how PJM's operating rules would mesh with Kentucky laws, particularly a statute that requires utilities in the state to give priority to the retail customers in

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their service territories in the event of an emergency on the transmission system. As a result of FERC's approval of the settlement without modification, the PSC's approval is now unconditional.

The PSC originally had rejected Kentucky Power's application to join PJM. In an order issued July 17, 2003, the PSC said that the proposed transfer would not be in the public interest because it would impose costs on Kentucky Power ratepayers – who now enjoy some of the lowest rates in the nation – without providing demonstrable benefits.

Kentucky Power and PJM asked the PSC to reconsider its decision and allow new evidence to be presented. The PSC granted the request and Kentucky Power then submitted a cost-benefit analysis that was specific to Kentucky.

Both the Kentucky Office of Attorney General and the Kentucky Industrial Utility Consumers, a group representing major industrial electric customers, had initially asked the PSC to deny the Kentucky Power application. They dropped their objections and joined in the stipulation after the new information was presented by Kentucky Power and PJM.

After the PSC initially denied Kentucky Power's entry into PJM, the FERC moved to override the state action. In November, the FERC issued a preliminary finding that actions taken by the PSC had violated federal law by blocking Kentucky Power's membership in PJM.

The FERC order, issued Thursday, June 17, 2004, ends the case with respect to Kentucky.

Documents in the case are available on the PSC Web site, psc.ky.gov. The case number is [2002-00475](#).

The PSC is an agency within the Environmental and Public Protection Cabinet that regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.